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MARKET SEGMENT REPORT **CAFETERIAS** PAGE 113

Restaurant Business

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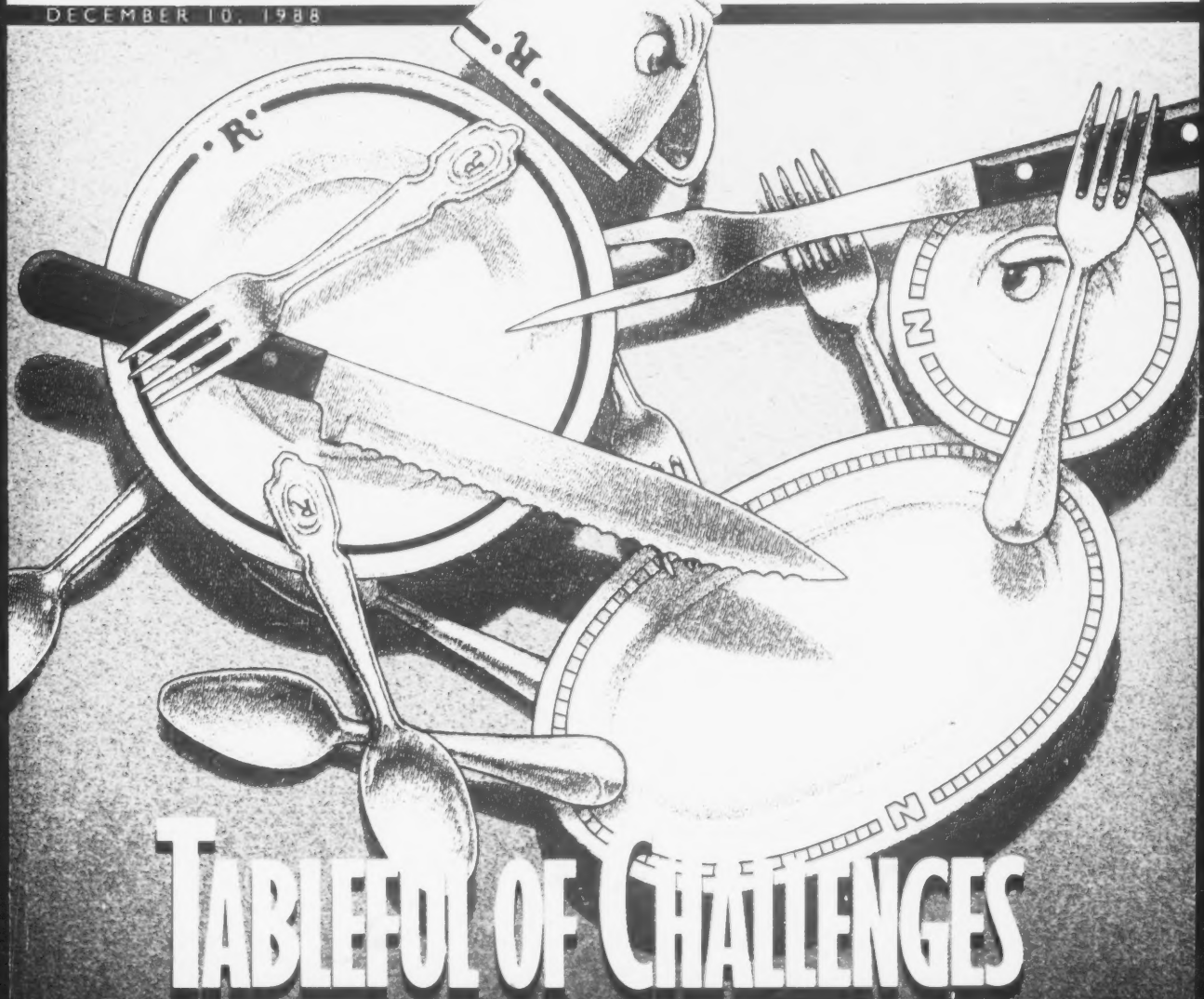

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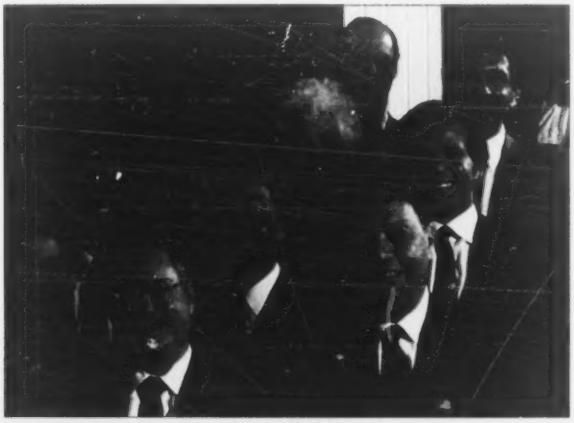

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Cover illustration by Mirko Ilić

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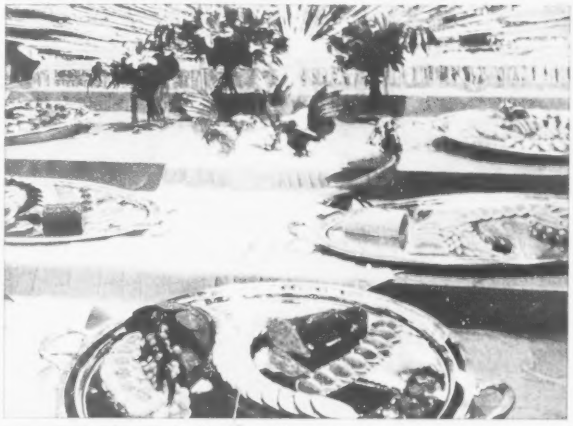
Restaurant Business now has available specially prepared reprints of the **1988 RESTAURANT GROWTH INDEX** and the **1988 MAJOR FORCES IN FRANCHISING.** These annual studies are invaluable reference tools.

The reprints are available for $5 per copy. Direct orders and inquiries to: Editor Peter Berlinski, *Restaurant Business* Magazine, 633 Third Avenue, New York, NY 10017.



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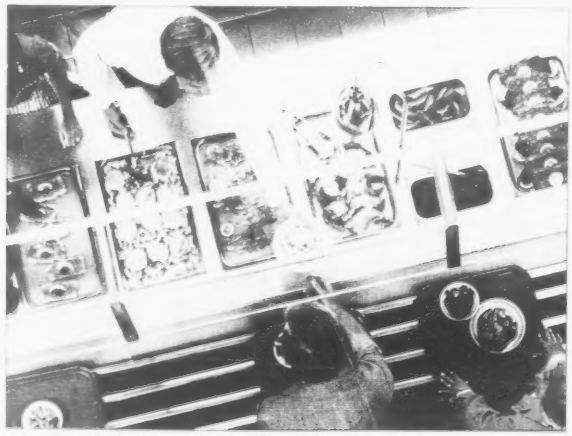

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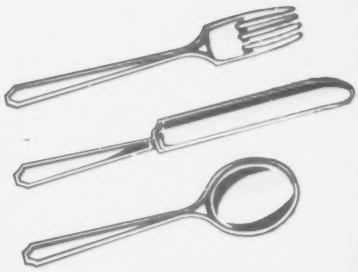
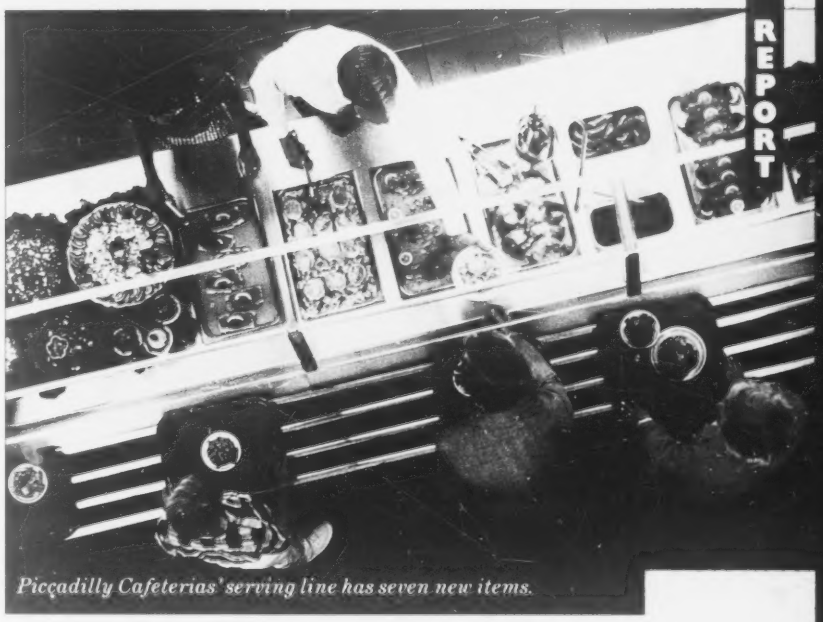
CAFETERIA





Piccadilly Cafeterias' serving line has seven new items.

BY JAMES SCARPA

The cafeteria is a venerable institution in the South and parts of the Midwest. It is the popular choice in these regions for good, simple cooking at affordable prices, dished out in agreeable surroundings.

Although growth is flat at present, the segment is positioned in tune with demographic trends, chiefly the aging population that bodes well for future growth.

The cafeteria segment was flat in 1987, according to CREST, a service of NPD Research, Park Ridge, IL. However, this actually indicates a stabilizing trend from traffic of -3% in 1986 and -5% in 1985.

In sales, cafeterias dropped 2% in 1987 compared to the previous year, CREST reports. At the same time, sales of the midscale category, of which cafeterias are a part, increased 3%. Thus, cafeterias have not been able to keep pace even with the modest growth of the midscale segment.

DEMOGRAPHICS. Despite the current doldrums, cafeteria players are optimistic about the future. They see the segment reaping large benefits from the "graying" of America.

Senior citizens make up the cafeteria segment's largest customer base, and it continues to grow. According to CREST figures, in 1982, only 21% of cafeteria customers were 65 years old or older. By 1987, the percentage had risen to 27%. Not far behind is the 50- to 64-year-old age group, which made up 24% of cafeteria customers in 1987, compared to 16% for all restaurants.

Seniors flock to cafeterias for three primary reasons, says George Rice, president of GDR CREST Enterprises Inc., Park Ridge, IL. First, they like the good price/value. Second, they enjoy the menu variety and food combination options. Third, they enjoy flexibility in portion sizes.

"Today, seniors have more purchasing power and they are more discriminating," adds Rice. "They represent a major marketing opportunity."

Families with children are also frequent cafeteria customers. With the baby-boom generation raising families these days, the cafeteria segment once again finds itself on target.

HOMESTYLE FARE. Customers young and old frequent cafeterias for ample portions of simple, homestyle dishes such as chopped steak, macaroni and cheese, carved roast beef and ham, baked fish, and fresh-baked pies. Another hook is variety; 100-item selections are not unusual.

For example, a typical menu of the

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Although growth is flat at present, the segment is positioned to be in tune with demographic trends.

CAFETERIAS

San Antonio-based Luby's Cafeterias chain includes 22 to 25 salads, 12 to 15 entrees, 12 to 15 vegetables, and 20 to 25 desserts. A substantial part of the menu changes between lunch and dinner and from day to day.

In addition to serving favorite American dishes from the mainstream, many cafeterias are helping preserve distinctive regional cooking. Steam-table servers plate hearty portions of chicken and dumplings, fried fish with okra, and Southern fried chicken. Hot vegetables such as turnip greens cooked with bacon, candied yams, and black-eyed peas are staples.

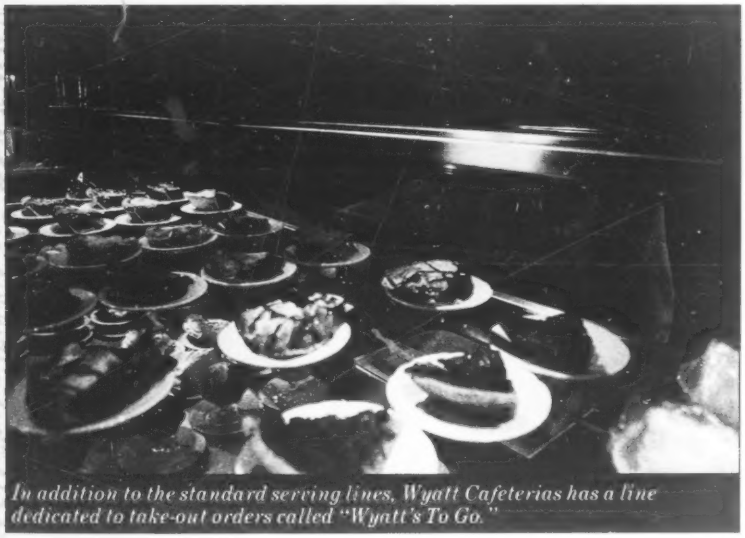
Cafeterias are conservative by nature, but they do adapt gradually to changing tastes. Luby's vice president of marketing Vernon Schrader notes that the menus of the 1980s offer much more fish and poultry than did menus of the 1940s, even though the concept has remained essentially the same. In recent years, ethnic items such as seafood tempura and baked lasagna have joined the menu.

Favorite dishes at Macon, GA-based S&S Cafeterias are a mixed bag of indigenous items and imports: country fried steak, veal parmigiana, chicken pan pie, crackling corn bread, and trout almondine.

Piccadilly Cafeterias has a wide-ranging repertoire of more than 1,000 recipes, including items such as New England boiled dinner, Mexican pepper omelet, Louisiana shrimp *etouffée*, chicken Wellington, and okra prepared four different ways. Piccadilly features a Mexican Day promotion once a week and Chinese dishes occasionally.

Customers also find attractive price/value in cafeteria meals. Each item is priced à la carte, so they pay only for the dishes they select. Checks average between $4 and $5. What's more, there is no tipping.

A well-run cafeteria appears to be a deceptively easy way to feed large numbers of people in a short period of time. But there is much more to success than lining up steam-table pans of food and opening the doors. A look at operations reveals that it is a concept in which it is critical to manage volume, labor, and food preparation.



In addition to the standard serving lines, Wyatt Cafeterias has a line dedicated to take-out orders called "Wyatt's To Go."

Senior citizens make up the cafeteria segment's largest customer base, which continues to grow.

CRITICAL OPERATION. High volume is essential for efficient cafeteria operations. At less than full capacity, problems may arise. "If you don't get high volume in a cafeteria, it's difficult to keep the food looking and tasting good on the line," says senior vice president Richard McGeoch of Mobile, AL-based Morrison Inc.

Running a cafeteria is an extremely labor-intensive business. It takes a minimum of 60 workers on a five-day week to run a Morrison Family Dining cafeteria, 75 to 80 for the higher volume locations. Labor shortages have hurt Morrison in its northerly states of Maryland and Ohio. Many observers feel that the labor shortage is the main barrier to wider distribution of cafeterias beyond the South.

Much of the labor is expended on food prep, since cafeterias usually make most of their menu items from scratch on the premises to keep the food cost as low as possible. Luby's, for example, prepares virtually everything from scratch, including baked goods, mayonnaise, salad dressings, and gravies. Because cafeteria chains have voluminous files with hundreds of recipes, they enjoy a greater degree of menu flexibility.

Menu flexibility means that cafeteria chains have more freedom to replace costly foodstuffs with less costly ones when prices rise.

It may look as if cafeteria food sells itself, but salesmanship plays a part as well. "Our servers are trained to tell the customer, 'We have nice beets today. Would you like to try them?'," says McGeoch. "We expect customers to buy something from every department of the line."

Location of a food item on the serving line also affects how well it sells. At Morrison, managers move pans from the back to the front of the line to encourage sales, especially of items that have a high labor cost. "We want to sell out items that involve a lot of preparation time, such as beef stew, country steak, and chicken and dumplings," says McGeoch.

Despite the demonstrated appeal of cafeterias, they are little known out-

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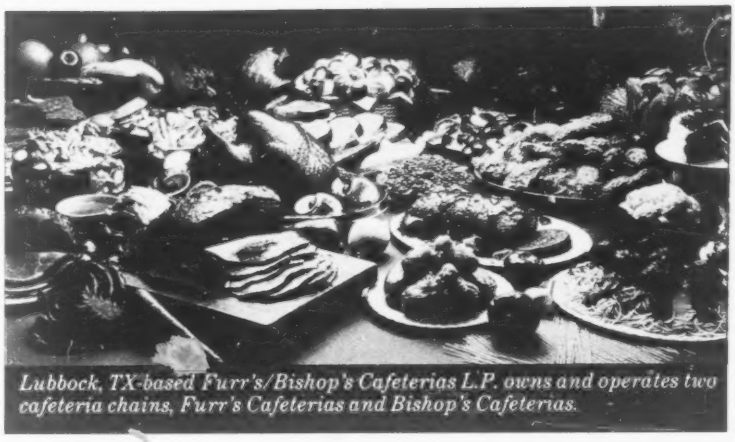
MARKET SEGMENT REPORT

CAFETERIAS



Lubbock, TX-based Furr's/Bishop's Cafeterias L.P. owns and operates two cafeteria chains, Furr's Cafeterias and Bishop's Cafeterias.

side their home markets in the South and pockets of the Midwest. Segment operators agree that cafeterias are perceived less favorably north of the Mason-Dixon line.

"Northerners tend to think of cafeterias in a hospital, military, or industrial context," says Morrison's McGeoch. "But we've had customers celebrate their 50th wedding anniversary at Morrison's."

"In our region, the cafeteria is a fun place. Young people eat here on their way to the movies," says executive vice president Brian Von Gruben of Baton Rouge, LA-based Piccadilly Cafeterias.

Many believe that climate is a major factor limiting the spread of cafeterias. "You can't let three or four months of bad weather kill you," says Luby's Vernon Schrader. "You have to keep those 300 seats filled regularly to make a cafeteria work."

Moreover, some observers point to higher costs of doing business and difficult labor markets in the Northeast and the West Coast as factors discouraging cafeteria chains from leaving the South. The higher senior citizen population in the South and the unique appeal of typical cafeteria fare to Southerners are also cited as reasons to stay put.

Over the years, a handful of cafeteria companies have grown into significant regional chains. A number of these are longtime performers such as Morrison, which began operation in 1920, Piccadilly Cafeterias, founded in 1944, and Luby's Cafeterias, founded in 1947. Many of the smaller companies have long histories as well, such as 50-year-old S&S Cafeterias of Macon, GA,

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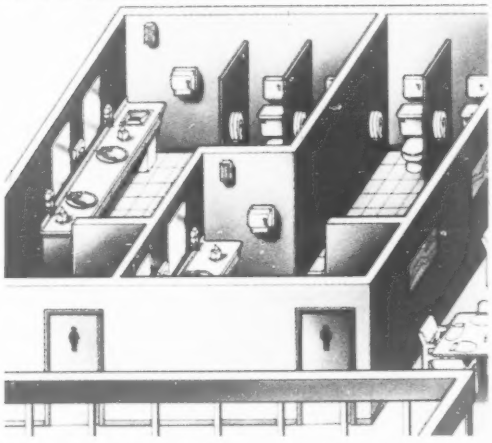
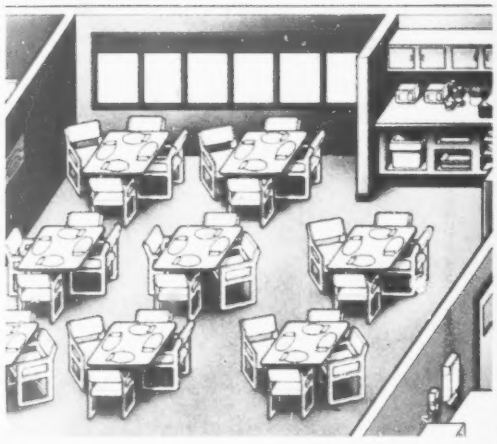
IT'S SHOWING UP IN THE RESTROOM.



Something to help keep maintenance costs to a minimum. It's simple. A restroom that looks good is good for business. Customers naturally prefer it to one that's cluttered and dirty. But you have to keep costs down at the same time. And weigh factors like personnel hours, waste, run-out, and pilferage.

Luckily, there's help on the way.

OUT FRONT.



A system to enhance your image. Make your customers feel good about the ambience in your place, and they'll be back. A sharp image and comfortable dining atmosphere—within the bounds of cost-efficiency—are the key to competing today.

What you need is a plan to make it work for you.

and 40-year-old K&W Cafeterias of Winston-Salem, NC.

Morrison Family Dining, the cafeteria division of Mobile, AL-based Morrison Inc., leads the cafeteria segment with fiscal 1988 sales of $291 million and 163 units, including seven Sadie's Buffet units in test. Company strongholds are the Southeast and Middle Atlantic states.

The company is changing its signage on new units from "Morrison's Cafeterias" to "Morrison's Family Dining." It believes the name change will convey a more positive image, particularly among northern visitors to markets such as Florida, where the company operates 61 units.

The Family Dining division is the largest foodservice segment of vertically integrated Morrison Inc., which also has specialty restaurants and contract feeding. Family Dining and the company as a whole have bounced back from some difficult financial years at the start of the decade, thanks to an effective turnaround program.

High volume is essential for efficient operations. At less than full capacity, problems may arise.

Part of the improvement at Morrison has been a renewed emphasis on food quality. Managers are now held more accountable for food quality. "It's not uncommon to see managers working alongside hourly employees in the kitchens," says Morrison's McGeoch. "This has boosted quality and morale."

Other changes include an increase in unit staffing from two managers to four, and simplification of paperwork. A toll-free telephone number to Morrison corporate headquarters has been added, for customer comments on food and service.

Also, Morrison has redecorated some 80 units and added glass-enclosed gas grills to the service lines. Grill cooks prepare steaks, seafood, and chicken in view of the customers, garnering up to 20% of customer orders in some units.

Expansion plans for Morrison Family Dining call for 10 new units in 1989, half of which will be Sadie's Buffets. Future expansion may someday take the company as far north as Pennsylvania, probably with a Sadie's Buffet, but for now, probably not further north than Cincinnati, says McGeoch.

Morrison units customarily have

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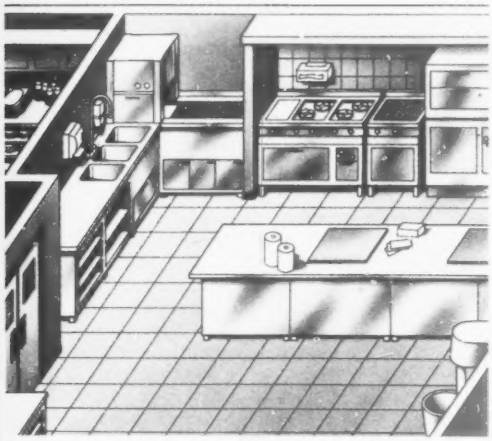
AND IN THE KITCHEN.



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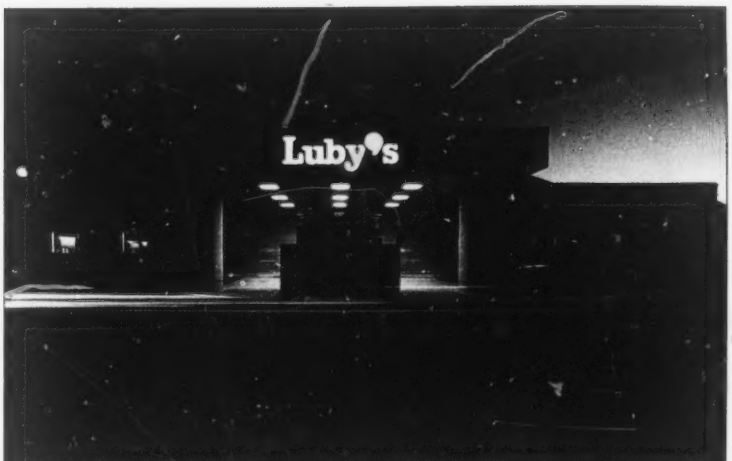
CAFETERIAS



Luby's Cafeterias' average unit volume of $2.3 million leads the cafeteria segment. The typical store is 10,000 to 11,000 sq. ft. in area and seats 300.

been regional mall tenants. Lately, the company has been entering strip centers and erecting freestanding buildings out of necessity, since regional mall development is slowing down. "Money is not a problem in expanding these days," says McGeoch. "It's finding locations and getting the trained management that are problems."

Luby's Cafeterias turned in sales of $254 million and a unit count of 113 in fiscal 1988. It operates in Texas, Oklahoma, Arizona, New Mexico, and Arkansas, a new state as of this year. Its average unit volume of $2.3 million leads the cafeteria segment. The typical store is 10,000 to 11,000 sq. ft. in area and seats 300.

Chief financial officer John Curtis calls Luby's performance "generally flat" in 1988. He attributes this largely to the economic woes of the state of Texas, where more than 90 of the chain's units are located. But he holds hope that 1989 will be better. Stores in Houston and the Rio Grande valley are rebounding, he says.

Luby's jumped on the take-out bandwagon when it began testing its "Good Food To Go" program in its 27-store Houston market, says senior vice president of operations development William Robson.

The program coincided with a prototype unit with a separate entrance for take-out customers. Merchandising includes new "Good Food To Go" logo and signage, backed up by POS materials, menus, and buttons. New take-out menus offer the full Luby's menu.

Chainwide, takeout accounted for only 5.1% of Luby's total sales. However, most recent figures show an overall 7% of sales for the Houston market, and 12.7% for the Houston prototype. As a result of the encouraging test, the program will be expanded to all Luby's units, says Robson. New construction will incorporate the separate entrance into freestanding cafeteria buildings and some strip mall locations.

Expansion plans call for approximately 10% unit growth per year, or 11 new stores in fiscal 1989. Florida is one of several new expansion markets under consideration.

Baton Rouge, LA-based Piccadilly Cafeterias turned in $234.6 million in sales in fiscal 1988. The company experienced margin pressure due to higher labor costs and slight increases in food costs. It expects that labor costs will remain high during fiscal 1989 as it opens and staffs new units.

Despite the economic troubles of the Oil Belt, Piccadilly is opening units at a 10% annual growth rate. As of early October 1988, the chain had 127 units in 14 states along the Sunbelt. The highest concentration of units is in Louisiana, Florida, and Texas.

Piccadilly entered the dinner-house game this year by acquiring the six-unit Baton Rouge-based Ralph & Kacoo's chain of Cajun-Creole restaurants for a reported $34 million.

But the biggest story for Piccadilly in 1988 was its expansion into Modesto and Fresno in central California, making it one of the few cafeteria players to move outside traditional Southern markets. Company statements refer to the Golden State as a potentially huge market.

In total, Piccadilly opened a total of 10 cafeterias during fiscal 1988, in Miami, Atlanta (three new units), New Orleans and Shreveport, LA, and Jackson, MS. In fiscal 1989, it intends to open at least 12 more cafeterias, including a second in Fresno and its first in Bakersfield, CA.

DOUBLE LINES. Several of Piccadilly's new cafeterias in 1989 will be equipped with double service lines. The company says that a double-line setup is capable of doubling its sales volumes in peak periods. In high-volume situations, it is worth the investment of 3,000 to 4,000 sq. ft. of additional space and a few more employees and pieces of equipment. The system already has a number of double-line cafeterias in use, but the company stopped building them in the early 1980s because of their heavy management demand. But with the improvement of its manager training program, Piccadilly will again build them where appropriate.

This year proved to be an active year for Piccadilly's menu development department as well. In addition to its new 40-item breakfast line in test in some stores, Piccadilly rolled out seven new menu items in 1988: barbecued brisket with beans and potato salad, Cajun shrimp, Cajun trout, Swedish pineapple cake, fruit turnovers, and mini-sized pecan rolls and cinnamon rolls packaged for takeout.

Piccadilly says it intends to expand its take-out service in 1989. It encourages customers to phone ahead to choose from a menu that includes a dozen each of salads, vegetables and potatoes, and desserts, plus six entrees, including roast beef, fried chicken, and fried or baked fish.

Lubbock, TX-based Furr's/Bishop's Cafeterias L.P. is a publicly held limited partnership that owns and operates two cafeteria chains, Furr's Cafeterias and Bishop's Cafeterias. There are 128 Furr's located in 10 Southwestern and Far Western states, and 27 Bishop's in seven Midwest states.

Furr's/Bishop's became a public limited partnership in September 1987, spearheaded by Michael Levenson, chairman and CEO of Calvacade and Co., the managing general partner. In 1988, the new regime sought to become the segment's largest player with a hostile takeover attempt of Wyatt Cafeterias. But Wyatt rejected Furr's/Bishop's highest bid of $188 million and approved a $173 million employee stock ownership plan buyout in-

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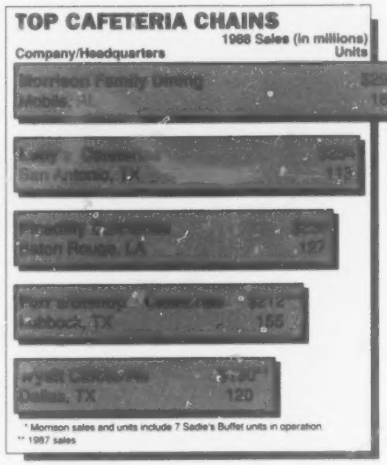
stead. For the time being, Furr's/Bishop's is not actively building new cafeteria units, concentrating instead on improving the partnership.

An all-you-can-eat promotion in about 90 Furr's/Bishop's stores has helped increase traffic over last year, ranging from 4.0% in March 1988 to 9.3% in June. For $4.29 at lunch and $4.99 at dinner and on weekends, customers may choose from virtually every item offered on the à la carte menu.

"This promotion brings the cafeteria concept to the attention of many people not familiar with it," says director of marketing Richard Lahvic. "It also puts a cap on price."

Wyatt Cafeterias' resistance to the Furr's/Bishop's takeover attempt diverted a great deal of the company's energy this year and put expansion on hold. The Dallas-based chain had 120 units as of October 1988, predominantly located west of the Mississippi, the majority in Texas. Its 1987 fiscal year sales were about $190 million.



In the future, Wyatt's will incorporate its employee ownership into marketing programs. "We'll be communicating the pride that employees feel in their company. 'I'm an owner now' is the feeling we want to communicate," says director of marketing Debra Hand. "I have seen a definite change in morale."

Although Wyatt is known as a conservative, operations-driven company, it has been among the segment's most innovative. It is following the take-out trend with "Wyatt's To Go," a cafeteria line dedicated to takeout with a limited menu in freestanding stores. It is remodeling its units to a brighter, more contemporary decor to appeal to a younger crowd. It was one of the first segment players to accept credit cards. Wyatt's also was among the first to test breakfast last year, although it subsequently put it on the back burner.

One of Wyatt's most popular holiday promotions is its take-home turkey dinner, which is advertised in some markets on billboards. For $31, customers receive a complete dinner of turkey and trimmings that serves 10 to 12.

The cafeteria market segment also has a number of small chains. One is

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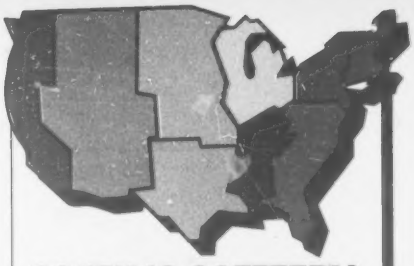
Macon, GA-based S&S Cafeterias, a privately held company operating 20 cafeterias in Georgia, the Carolinas, Florida, Tennessee, and Virginia. In addition to its à la carte selection of more than 100 items, S&S promotes a deal called the Great American Favorite. It allows the customer to choose one of five entrees, two of a dozen different vegetables, and bread, for $3.19, according to president and CEO J. A. Smith. Another small chain is Winston-Salem, NC-based K&W Cafeterias, which operates 20 units in the Carolinas and Virginia. It offers a minimum of 12 entrees, 12 to 14 vegetables, 20 to 25 salads plus a large salad bar, and 12 to 15 desserts. The average check is $3.30. It expects to open two or three new units next year.

COMPETITION. Although the abovementioned demographic trends promise a bright future for the cafeteria chains, they will still face a stiff battle in an increasingly saturated marketplace. Competition is heating up from outside the segment as well as within.

"We face a broader spectrum of competition than only cafeterias, especially operations with food bars such as Sizzler, Ryan's, and Ponderosa," says marketing vice president Mark Lawrance of MCL Cafeterias, a 27-unit chain based in Indianapolis, IN.

But, if the cafeteria market segment can add some marketing power to its conservative, operations-driven nature, it should be able to thrive. Luby's Vernon Schrader speaks for the cafeteria segment as a whole when he predicts a positive future for the segment. "People will always be interested in a good meal at a reasonable price, one that is nutritious and flavorful."

"We are well positioned for the future," adds Piccadilly's Brian Von Gruben. "As the population ages, we think we'll win."



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Distribution of Cafeteria Restaurants by U.S. Census Regions.

New England	**1.0%**	26 units
Middle Atlantic	**3.9**	101
East/North Central	**11.9**	308
West/North Central	**8.6**	221
South Atlantic	**26.6**	687
East/South Central	**6.9**	178
West/South Central	**21.5**	555
Mountain	**6.7**	172
Pacific	**12.9**	334

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